

## **ENERGY RISK MANAGEMENT**

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### **ENERGY MARKET REPORT FOR MAY 23, 2011**

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The EIA reported that the US average retail price of diesel fell 6.4 cents to \$3.997/gallon in the week ending May 23<sup>rd</sup>. The price of diesel is up 97.6 cents or 32.2% on the year. The EIA also reported that the US average retail price of gasoline fell by 11.1 cents to \$3.849/gallon on the week.

#### **Market Watch**

Democratic congressmen said increasing US domestic drilling would lower oil prices by only about 1% after a decade or more.

China's factories expanded in May at their slowest pace in 10 months while price pressures eased. The HSBC flash manufacturing purchasing managers' index showed that China's manufacturing sector is slowly easing rather than heading for a deep downturn as demand at home and abroad remain firm. The flash PMI eased to 51.1 in May, the lowest level since July 2010.

Water levels on the Rhine and Danube Rivers in Germany have fallen again following hot, dry weather and some vessels are sailing 80% empty. Ships on the entire German section of the Rhine River could only sail partly loaded because of the low water.

Iran's Oil Ministry denied reports stating that the country's President Mahmoud Ahmadinejad would attend the OPEC meeting in June. Iran's President said he would send a cabinet minister of his choice to attend both the OPEC gathering as well as the forthcoming joint meeting between OPEC and the EU.

Iranian Foreign Minister Ali Akbar Salehi said Iran invited China on Monday to send experts to investigate its nuclear facilities. Separately, Iran is considering imposing sanctions on US officials for human rights violations. While the European Union foreign ministers added 100 Iranian companies and individuals to a sanctions blacklist on Monday, Iran's parliament was set to debate censuring 26 US officials.

A French diplomatic source said NATO plans to use attack helicopters in Libya to help break a military stalemate with forces loyal to Muammar Gaddafi. Rebels said Gaddafi forces were trying to advance into the Misrata.

The US embassy in Yemen shut its consular section to the public for at least two days due to insecurity, as forces loyal to President Ali Abdullah fought with opponents on Monday. Yemeni loyalist forces fought with opponents of the president one day after he backed out of a Gulf-brokered agreement for him to step down.

#### **Refinery News**

May Calendar Averages
CL - \$101.50
HO - \$2.9576
RB - \$3.1069

Credit Suisse reported that US refinery margins fell 25% on average in the week ending May 20<sup>th</sup>. Refinery margins in the Northeast fell by \$4.43 to \$7.11/barrel while margins in the Midwest fell by \$10.50 to \$26.22/barrel. Margins in the Gulf Coast fell by \$10.28/barrel to \$22.63/barrel while margins in the Rockies region fell by \$1.40 to \$38.06/barrel and margins in the West Coast fell by \$4.30 to \$12.58/barrel.

Valero Energy Corp reported an equipment failure in a sulfur plant at its 185,003 bpd St. Charles refinery in Norco, Louisiana on Friday. It also stated that it restarted a fluid catalytic cracking unit that was shut in March for maintenance.

ExxonMobil reported problems at its 238,600 bpd refinery in Joliet, Illinois. It reported sulfur dioxide emissions due to an upset. Spot gasoline prices in the Midwest Chicago market rallied 10 cents/gallon.

ConocoPhillips said it would take the regenerative thermal oxidizer out of service for maintenance at its 247,000 bpd Sweeny, Texas refinery. It shut a hydrogen purification unit due to a leak on a drain valve at the refinery.

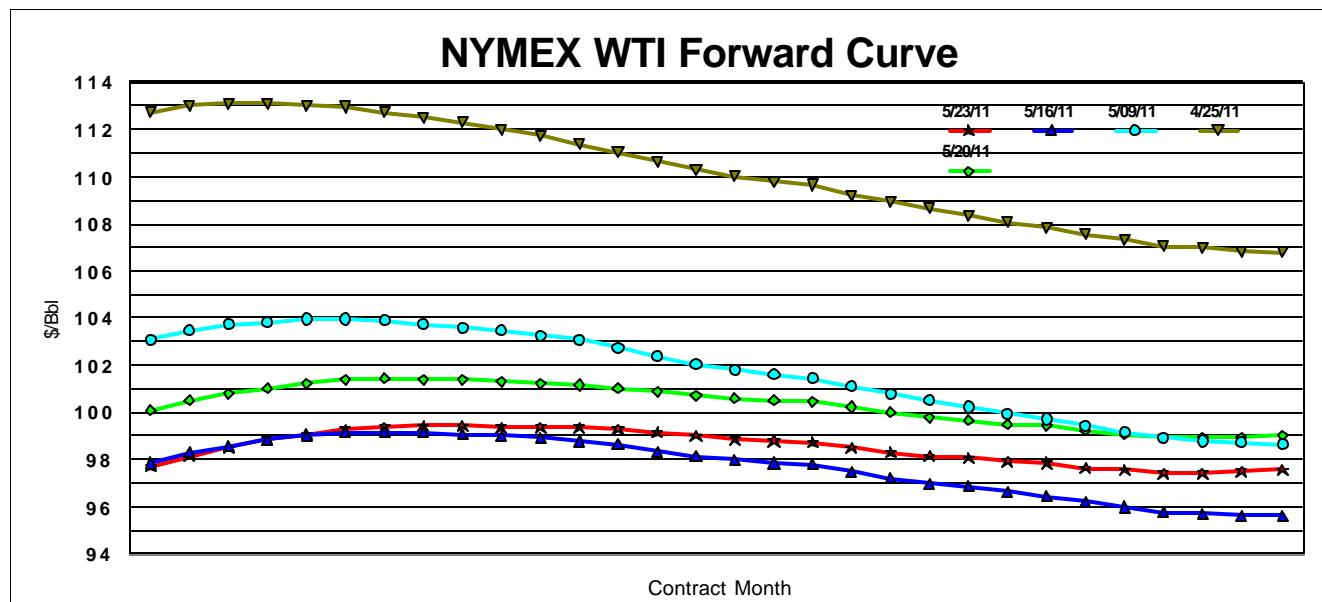
CVR Energy is restarting a continuous catalytic reformer unit at its 115,700 bpd refinery in Coffeyville, Kansas following a fire on May 10<sup>th</sup> that shutdown the unit. It cut run rates at the refinery following a small flange fire on the reformer unit.

LyondellBasell is experiencing production problems at its refinery in Houston, Texas. The problem was a lack of steam going into the 270,000 bpd refinery's crude distillation unit.

A fluid catalytic cracking unit at Irving Oil's 300,000 bpd refinery in St. John, New Brunswick was shut down due to a problem.

Hovensa restarted the No. 4 distillate desulfurizing unit at its 350,000 bpd St. Croix refinery. The unit was damaged in a February 11<sup>th</sup> fire.

An explosion was heard in a unit at Venezuela's 310,000 bpd Cardon facility, which has been closed since May 12<sup>th</sup> due to power problems.



Japan's JX Nippon Oil & Energy Corp plans to restart its 189,000 bpd crude distillation unit at its Kashima refinery on June 4<sup>th</sup>, nearly three months after it was shut following the earthquake. The restart of a 63,500 bpd condensate splitter would follow about a week later.

China's apparent oil demand in April increased 9.2% on the year and 2.3% on the month to 9.36 million bpd, according to Reuters. China's crude oil production in April increased by 4.3% on the year but fell by 0.3% on the month to 4.127 million bpd. China's crude imports in April increased by 1.3% on the year and 2.9% on the month to 5.172 million bpd while its oil product imports increased by 56.7% on the year and 11% on the month to 307,992 bpd. Gasoline exports fell 46% on the year and 20% on the month to 375,167 tons while diesel exports fell by 61% on the year and 17% on the month to 218,267 tons.

South Korea increased its crude oil imports in April by more than 8% to 76 million barrels. The country's oil product demand fell by 13% on the year to 57.3 million barrels. South Korea's crude runs increased by 12.4% on the year to 77.5 million barrels.

Gulf Keystone Petroleum is preparing to export up to 5,000 bpd of oil at the request of the Kurdish Ministry of Natural Resources. It said the Kurdistan Regional Government asked it to begin exporting oil at an initial volume of 5,000 bpd. Kurdistan recently resumed oil exports after resolving a payment dispute with the central government. The regional government is currently exporting about 120,000 bpd and is expected to reach 200,000 bpd by year end.

Saudi Aramco sold up to 80,000 tons of fuel oil for prompt May loading at higher price levels.

China National Petroleum Corp would more than double its oil and gas pipeline construction in the coming years. It plans to lay 64,000 kilometers of oil and gas pipelines from 2011 to 2015. It had nearly 57,000 kilometers of oil and gas pipelines in operation at the end of last year. China hopes to have 140,000 kilometers of oil and gas pipelines by 2015.

### **Production News**

Mexico's Pemex has taken delivery of an offshore drilling platform that it planned to use for exploration in the deep waters of the Gulf of Mexico. The platform is the third to be leased by Pemex in recent months. The platform, which arrived in the Gulf port city of Tuxpan from South Korea, would be the first to be used at the Talipau-1 well project in the northern region of the southern Gulf. Separately, Pemex said Mexico's oil exports fell to 1.223 million bpd in April, down from 1.424 million bpd in March.

Nigeria's oil exports are expected to fall slightly in July to about 2.06 million bpd, down from 2.15 million bpd in June. Nigeria is scheduled to load 11 cargoes or about 337,000 bpd of Qua Iboe crude oil in July, down from 12 scheduled cargoes in June. It is also scheduled to export seven 950,000 barrel Bonny Light crude cargoes in July, six Brass River, seven Forcados, four Akpo, two Abo and two Okono crude cargoes.

Indonesia's Pertamina expects oil output at its West Madura oil block to reach 50,000 bpd by 2015. It currently produces 14,000 bpd.

Yemen's Oil Ministry said Yemen is sharply increasing its imports of oil products as it attempts to solve its fuel crisis after its largest refinery was forced to shut. The monthly import levels were around 280,000 tons for diesel and 120,000 tons for gasoline. This reflected a three fold increase for diesel imports and a near four fold increase in gasoline imports.

Nigeria set its official selling price for the Qua Iboe crude and Bonny Light crude oil streams at a premium of \$3.20/barrel to dated Brent for June. It is down 60 cents on the month.

OPEC's news agency reported that OPEC's basket of crudes fell to \$107.42/barrel on Friday from \$107.88/barrel on Thursday.

### **Market Commentary**

Fear over the European debt crisis pressured the euro and strengthened the dollar, which in turn put weight on crude oil. The July crude oil contract fell more than 3 percent, trading between the range of \$100.04 and \$96.37. With any signs that there is a pause in the economic recovery, thoughts automatically go to the demand factor in this market. Hedge funds, keeping a watchful eye on demand, will continue to lighten up on length anytime economic numbers point to demand destruction. Technically, crude oil should continue to trade within a period of consolidation, within the upward channel. Should the July crude oil contract break below support at \$96.20, a test at \$95.30 is possible

Crude oil: July 11 416,630 -829 Aug 11 88,300 -743 Sept 11 90,689 -1,495 Totals 1,529,630 -16,489 Heating oil: June 11 47,629 -4,283 July 11 88,639 +3,550 34,570 Aug 11 34,570 +1,292 Totals 314,901 +929 Rbob: June 11 41,824 -5,606 July 79,645 +383 Aug 11 27,376 -1,548 Totals 273,153 -7,535

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9620	10300		31325		
9535	10845	27695	32777		33369
9284	11120	26680	33370	26965	35915
8700	11483	27375	33510	26300	36310
8625	11563	23685		25683	
8500	11703	22960		25145	
8385	12126			24240	
	14933			23631	
				23414	

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